

FISCAL NOTE

Bill #: SB0473

Title: Providing a prescription drug expansion program under Medicaid

Primary Sponsor: Elliott, J.

Status: Third Reading

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
-------------------	------	---------------------------------	------

Fiscal Summary

	FY 2004	FY 2005
	<u>Difference</u>	<u>Difference</u>
Expenditures:		
General Fund	\$32,534	\$0
State Special Revenue	\$109,784	\$2,098,061
Federal Special Revenue	\$292,318	\$5,229,463
Revenue:		
State Special Revenue	\$211,950	\$2,893,820
Federal Special Revenue	\$292,318	\$5,229,463
Net Impact on General Fund Balance:	(\$32,534)	\$0

- | | |
|--|--|
| <input type="checkbox"/> Significant Local Gov. Impact
<input type="checkbox"/> Included in the Executive Budget
<input checked="" type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Significant Long-Term Impacts
<input checked="" type="checkbox"/> Needs to be included in HB 2 |
|--|--|

Fiscal Analysis

ASSUMPTIONS:

Health Policy Services Division (Prg 07)

- SB473 expands the Medicaid prescription drug program. This program expansion is dependent upon the approval of two Medicaid waivers by the federal government.
- This fiscal note assumes the federal waivers will be approved.
- It is estimated that the program will not begin paying benefits until July 1, 2004; however, applications for the program will be accepted starting April 1, 2004.
- Estimations are that there would be 42,390 people who are not currently eligible for Medicaid but who would become eligible for the program under this bill. Of this number, 28,340 would be aged 65 and over, 10,000 people over 18 and under 65 years old, and 4,050 would be added under Mental Health Services. There is no information currently available on the number of people or prescription drug statistics for people 62 years of age. This fiscal note uses information based on people 65 years of age.
- Approximately 2,826 people per month will apply for the program, beginning April 1, 2004, resulting in 8,478 applications in FY 2004 and 33,912 applications in 2005. (FY 2004 is $2,826 \times 3 = 8,478$; FY 2005 is $2,826 \times 12 = 33,912$). ($8,478 + 33,912 = 42,390$).

Fiscal Note Request SB0473, Third Reading

(continued)

6. An application fee of \$25 per application would generate state special revenues of \$211,950 in FY04 and \$847,800 in FY05.
7. It is estimated that of the 42,390 applicants, 71.53 percent will use the program, resulting in 30,320 participants in 2005 (71.53 percent is the Medicaid utilization percentage, which is assumed will be the same for this program). Although some of the applicants will apply in FY 2004, none will receive benefits until FY 2005. This would add 2,021 people per month for 15 months (April 1, 2004 to June 30, 2005) to reach 30,320 participants.
8. An average of 45 prescriptions per year per eligible participant will be filled, based on the average for the current Medicaid prescription program. This is 3.75 prescriptions per month per person ($45/12=3.75$). This would add 7,580 claims per month to the program ($3.75 \times 2,021$) and would make the total claims for FY 2005 equal to 864,086.
9. The average cost per prescription would be \$49.67, in FY2005, which excludes the dispensing fee. This is the average under the current Medicaid prescription program, and it is assumed it would be the same for this program.
10. The client would pay the pharmacy the cost of the drug less a discount and the dispensing fee. The discount is estimated to be an average of 14 percent in FY 2005. This amount changes as the enrollment in the program changes. Different discounts will be provided based upon the utilization and distribution of generics and brand drugs.
11. The State of Montana will pay the pharmacy the discount amount (averaging 14 percent) of the drug.
12. Drug costs paid by the State of Montana to the pharmacies will be \$6,008,660 in FY 2005.
 - a. Drug Costs FY 2005
 - i. $864,086 \text{ prescriptions} \times \$49.67 = \$42,919,144$ Total Prescription Cost
 - ii. $\$42,919,144 \times 14 \text{ percent discount fee} = \$6,008,680$ Total Program Cost
 - iii. $\$6,008,680 \times 27.57 \text{ percent} = \$1,656,593$ paid by state special revenue fund
 - iv. $\$6,008,680 \times 72.43 \text{ percent} = \$4,352,087$ paid by federal Medicaid funds.
13. Claims processing fees will be approximately \$1.05 per claim, and total \$907,290 ($864,086 \times \1.05). This will be paid 75 percent from federal funds and 25 percent state special revenue. State special revenue costs will be \$226,823 ($\$907,290 \times 25 \text{ percent}$) and federal fund costs will be \$680,468 ($\$907,290 \times 75 \text{ percent}$). It is possible that the state will not have to pay this claims processing fee. If we do not have to pay this fee, the amount of money available for benefits will increase.
14. Drug rebates are paid to the state by drug companies based on the number of units dispensed and the established rebate amount for each kind of drug. For fiscal note purposes, the total cost of the drug is used to calculate the drug rebate. The total cost of drugs is \$42,919,144 in FY 2005. It is estimated that the rebate percentage is 17 percent of the drug cost.
15. Drug rebates are included as income, and are estimated to be \$3,794,052 in FY 2005. The income is shared in accordance with the Medicaid utilization percentage between the state and the federal government. The state share is included in the state special revenue fund that also collects the application fees. From this fund the state share of expenditures is matched with federal Medicaid funds. Due to the time lag in rebate collections in FY 2005, 52 percent of the rebate amount will be collected and available for use in FY 2005.
 - a. Drug Rebates FY 2005
 - i. $\$42,919,144 \times 17 \text{ percent rebate} = \$7,296,254 \times .52 = \$3,794,052$
 - ii. $\$3,794,052 \times 27.57 \text{ percent} = \$1,046,020$ state special revenue
 - iii. $\$3,794,052 \times 72.43 \text{ percent} = \$2,748,032$ federal Medicaid revenue
16. Due to the time lag in obtaining the drug rebates, a Board of Investments loan of \$1,000,000 would be necessary for program startup. This loan is included as income and would be matched with \$2,627,131 in

Fiscal Note Request SB0473, Third Reading

(continued)

federal Medicaid funds, for a total of \$3,627,131 available funding. ($\$1,000,000/27.57$ percent)-
 $\$1,000,000 = \$3,627,131$ federal funding.

17. Repayment of the Board of Investment loan will begin when drug rebates begin to be received. With repayment at 4 percent interest over four years, loan payments are expected to be approximately \$22,579 per month. Payments will be from the state special revenue fund and will begin April 1, 2005, for a total cost of \$67,737 ($\$22,579 \times 3$) in FY 2005.
18. Federal matching funds will be available to match both general fund and state special funds spent on program operations. The federal match will be 50 percent of the total cost.
19. It is estimated that an additional 5.00 FTE will be needed to administer this program. Salary and benefit costs for these FTE are \$88,814 in FY 2004 and \$178,150 in FY 2005. In FY 2004, the costs would be \$22,269 state special revenue, \$22,138 general fund and \$44,407 federal funds. In FY 2005, the costs would be \$89,075 state special revenue and \$89,075 in federal funds.
20. Costs for the new employee office packages, rent and new computers are \$19,155 in FY 2004 and \$9,000 in FY 2005. In FY 2004, \$5,432 will be paid from state special revenue, \$4,146 from general fund and \$9,578 from federal funds. In FY 2005, \$4,500 will be paid from state special revenue funds and \$4,500 will be paid from federal funds.
21. In FY 2004, one grade 16 FTE will be paid out of general fund for the first nine months and state special the last three months. This FTE will start the program. One grade 16 FTE will be needed for six months and be paid three months out of general fund and three months out of state special. This FTE is the analyst position. Once applications begin arriving around April 1, 2004; the remaining three grade 11 FTE will be needed for the last three months. The grades 11 FTE are two eligibility examiners and one administrative assistant. These FTE will be paid from state special revenue and federal funds.
22. Changes will be needed in the Pharmacy Drug Claims System, MMIS (Medicaid Management Information System) and eligibility systems in FY 2004 to accommodate this bill. These changes are estimated to cost \$300,000. The \$100,000 in FY 2005 is needed to pay systems maintenance and administrative systems management costs. These charges are paid 75 percent by federal funds and 25 percent by state special revenue.

Fiscal Services Division (Prg 06)

23. Fiscal Services Division will require a 0.50 FTE, grade 9 accounting technician to process the fee collections, at an annualized cost of \$16,666 per year. This position would start in April, 2004.
24. Agency indirect costs and SABHRS (Statewide Accounting, Budget, and Human Resource System) costs will be \$10,000 in FY04 and \$40,000 per year thereafter.
25. Fiscal Services Division costs will be funded at a rate of 50 percent state special revenue and 50 percent federal funds.

Director's Office (Prg 04)

26. It is estimated that a review of federal and state laws and regulations and the Maine law on this topic, assistance with the development of the request for a federal waiver of certain Medicaid laws, review of current litigation in Maine involving their program, and preparation of administrative rules will require a one time cost of contracting with an attorney at DOJ at the rate of \$75 for 140 hours of work for a total cost of \$10,500.
27. The Secretary of State's office currently charges \$40.00 per page to print administrative rules. It is estimated that the initial changes to administrative rules as a result of this bill would require printing 50 pages at a cost of \$2,000 in FY2004.
28. The Office of Legal Affairs is funded at a rate of 50 percent general fund and 50 percent federal funds for this function.

Fiscal Note Request SB0473, Third Reading
(continued)

Department of Commerce, Board of Investments

29. A prescription drug benefits expansion program, under the Medicaid program, is created to offer prescription drugs at a discounted price to qualified individuals. The program is to be administered by the Department of Public Health and Human Services.
30. The DPHHS is authorized to borrow from the Board of Investments to pay the startup costs of the program. A loan would be made under the Board of Investments' INTERCAP loan program. INTERCAP is a variable rate loan program whose interest rate changes every February 16th. The loan rates are estimated to be 2.85 percent through February 15, 2004 and 4.00 percent through February 15, 2005.

<u>FISCAL IMPACT:</u>	FY 2004	FY 2005
<u>Department of PHHS</u>	<u>Difference</u>	<u>Difference</u>
<u>Health Policy Services Division (Prg 07)</u>		
FTE	5.00	5.00

<u>Expenditures:</u>		
Personal Services	\$88,814	\$178,150
Operating Expenses	<u>319,155</u>	<u>1,084,027</u>
Benefits		<u>6,008,680</u>
TOTAL	\$407,969	\$7,270,858

<u>Funding of Expenditures:</u>		
General Fund (01)	\$26,284	
State Special Revenue (02)	102,700	2,069,728
Federal Special Revenue (03)	<u>278,984</u>	<u>5,201,130</u>
TOTAL	\$407,969	\$7,270,858

<u>Revenues:</u>		
State Special Revenue (02)	\$211,950	\$2,893,820
Federal Special Revenue (03)	278,984	5,201,130

Fiscal Services Division (Prg 06)

FTE	0.13	0.50
-----	------	------

<u>Expenditures:</u>		
Personal Services	\$4,167	\$16,666
Operating Expenses	<u>10,000</u>	<u>40,000</u>
TOTAL	\$14,167	\$56,666

<u>Funding of Expenditures:</u>		
State Special Revenue (02)	\$7,084	\$28,333
Federal Special Revenue (03)	<u>7,084</u>	<u>28,333</u>
TOTAL	\$14,167	\$56,666

<u>Revenues:</u>		
Federal Special Revenue (03)	\$7,084	\$28,333

Fiscal Note Request SB0473, Third Reading
(continued)

Director's Office (Prg 04)

Expenditures:

Operating Expenses	\$12,500
--------------------	----------

Funding of Expenditures:

General Fund (01)	6,250
Federal Special Revenue (03)	<u>6,250</u>
TOTAL	\$12,500

Revenues:

Federal Special Revenue (03)	\$6,250
------------------------------	---------

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$32,534)	\$0
State Special Revenue (02)	\$102,166	\$795,759

TECHNICAL NOTES:

1. This program is contingent upon approval of a Pharmacy Plus Comparability of Services Waiver and a Cost Sharing Waiver from CMS (Centers Medicare and Medicaid Services).
2. This fiscal note assumes that federal funds would be available to match the \$1,000,000 loan from the Board of Investments; however, this match would have to be confirmed by CMS.
3. If the application for federal waivers is denied and the program cannot continue, the Board of Investments loan would not be required.
4. This proposed drug rebate plan is modeled after and will utilize the same principles as the current Medicaid drug rebate plan. It would be separately administered from the current drug rebate plan, and all rebates under this plan would be accounted for separately.
5. If drug rebate dollars returned to the state from the pharmaceutical companies is less than the discount paid by the state for the drugs, the general fund would have to pay the difference in the amounts.
6. The bill does not specify the amount the Department of Public Health and Human Services may borrow from the Board of Investments and does not stipulate the source of revenue for loan repayments.

Fiscal Note Request SB0473, Third Reading
(continued)

DEDICATION OF REVENUE: SB 473

- a) Are there persons or entities that benefit from this dedicated revenue that do not pay?
(please explain)
No. All revenue generated by the program established in HB-473 would be utilized to support the program.
.
- b) What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?
Program activities are limited to available revenue.
- c) Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No
Yes – assuming the federal waivers are approved.
- d) Does the need for this state special revenue provision still exist? ☒ Yes ☐ No (Explain)
.
- e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)
Yes, it enhances legislative oversight as the funds are separated from other funds.
- f) Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)
Yes, assuming SB 473 is passed and the federal waivers are approved, it would fulfill the intent of the legislation.
- g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)
A new fund and a different revenue distribution process must be established.
The activities could be accounted for using general fund via separate project grant in the state's accounting system.